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Policy panel to private sector: Pony up for better infrastructure

San Francisco Business Times - by Eric Young

With governments' debt soaring and the need for infrastructure projects growing, private investors will play an increasingly critical role in paying for better roads, waterworks, buildings and other public projects in the Bay Area.

That was the central theme emerging from a discussion of local infrastructure issues on Tuesday. Infrastructure is "really the underpinning of the local, state and national economy," said Jim Wunderman, CEO of the Bay Area Council, a business-backed policy group representing major employers. "It's absolutely time we bring the private sector to bear" on infrastructure deals, he told a crowd of more than 200 attendees at the Hilton San Francisco.

Government in the past has spent on infrastructure projects to bolster a faltering economy with new jobs and revenue-producing projects. Think the New Deal, for example. Former President Franklin Roosevelt's program created work for many unemployed and helped with the recovery of the economy during The Great Depression.

But today's government carries much bigger debt, meaning it does not have the flexibility to spend like in the past, said Roger Hughes, a lawyer at **Bell Rosenberg & Hughes** LLP, an Oakland firm focused on the construction industry. Total credit market debt as a percentage of gross domestic product has soared to 350 percent this year, said Hughes, well above the level during the Depression. "To a large extent our economic growth has been fueled by debt and it is going to be a difficult time unwinding that process," Hughes said.

California is spending less and less on infrastructure as well. At its peak in the late 1950s and early 1960s, 3.6 percent of California's gross state product went to building and maintaining everything from bridges to aqueducts. That has slipped to 2.21 percent in 2002, the most recent year for which data is available.

Meanwhile, there is a growing appetite among private investors who want to pour money into infrastructure projects, said Kathleen Brown, the head of **Goldman Sachs**' (NYSE: GS) west coast municipal finance practice. Public-private partnerships, in which private sector money is involved in building or maintaining a public asset, "are not new, they are not a silver bullet and they are not one-size-fits-all," Brown said. But when used properly, she said, such partnerships can be powerful forces to fund projects.

Major investors like the California Public Employees' Retirement System have begun to direct some of their investment dollars into infrastructure funds, Brown said. The reason?

Big institutional investors are attracted by the steady cash flow offered by operating something like a road, railway or other major piece of infrastructure.

California might enter into a major public-private partnership should voters approve funding for the California High Speed Rail proposal during next month's election. Private investors are expected to provide about one-third of the cost of building a bullet train linking the Bay Area and southern California. The system would be the largest public works project in California history and would cost an estimated $32 billion for the main line between San Francisco and Los Angeles and another $10 billion to add extensions to San Diego, Sacramento and Riverside County. In addition to the one-third provided by private investors, one-third of the money would come from taxpayers and one-third from the federal government.

"I'm satisfied we'll prevail" during the Nov. 4 vote, said Quentin Kopp, chairman of the **California High Speed Rail Authority**. The measure needs a simple majority to pass.